

RESOLUTION NO. 2012-014

A Resolution of the Board of Commissioners of PUD No. 1 of Jefferson County, Washington ("the PUD"), approving the acquisition, from the Kala Point Utility Company, of all of the real and personal property comprising the Kala Point water distribution system; authorizing the assumption and future operation of the Kala Point water distribution system by the PUD; and authorizing the District Manager, James Parker, to execute all documents necessary to close that transaction.

WHEREAS, Kala Point Utility Company, a Washington corporation ("KPUC"), now owns the water distribution system which serves the real property development known as Kala Point in Jefferson County; and

WHEREAS, the owners of KPUC have decided to sell the Kala Point system and have offered it for sale to the PUD; and

WHEREAS, the PUD is authorized by RCW 54.16.030 to acquire and operate water distribution systems anywhere in Jefferson County; and

WHEREAS, the PUD Commissioners now wish to enter an Agreement whereby the PUD will acquire and operate the Kala Point water system in the future upon terms set forth in an Agreement which is attached hereto as Exhibit "A", which has been negotiated between the PUD and KPUC.

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of Public Utility District No. 1 of Jefferson County, as follows:

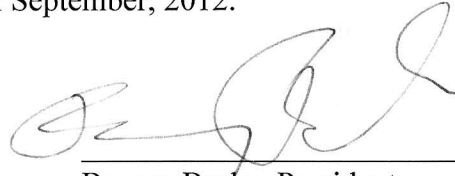
Section 1. The Commissioners have determined that it is in the public interest and will be conducive to the public health, welfare, and convenience, for the PUD to purchase the Kala Point water distribution system and to operate that system in the future.

Section 2. Attached hereto as Exhibit "A" is a copy of the Agreement which has been negotiated with KPUC for the proposed transaction, which agreement is subject to certain contingencies stated in the Agreement. The Commissioners hereby authorize and direct the District Manager, James Parker, to execute the Agreement on behalf of the PUD, in substantially the same form as in Exhibit "A", and to take all necessary steps to satisfy the contingencies in the Agreement. Mr. Parker is further authorized to negotiate and agree upon minor amendments to the Agreement prior to closing, as necessary to complete the transaction on terms acceptable to the PUD.

Section 3. Upon satisfaction of all contingencies, the District Manager is authorized to sign any additional documents necessary to close the transaction.

Section 4. The Commissioners recognize that the Agreement contemplates that the PUD, in partial payment of the price owing to KPUC, will agree either (1) to assume and pay the balance, up to \$90,000, of an existing loan balance owing from KPUC to the State of Washington on a Drinking Water State Revolving Fund ("DWSRF") loan, under SRF loan number 98-78898-021, or, alternatively, (2) to pay off that loan. The Commissioners hereby authorize the District Manager to sign any documents necessary to assume that loan with the State, or alternatively, to pay off the loan if the State does not approve assumption of the loan by the PUD.

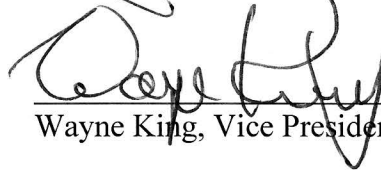
ADOPTED by the Board of Commissioners of PUD No. 1 of Jefferson County at a Regular Meeting thereof, held this 18th day of September, 2012.



Barney Burke, President



Ken McMillen, Secretary



Wayne King, Vice President

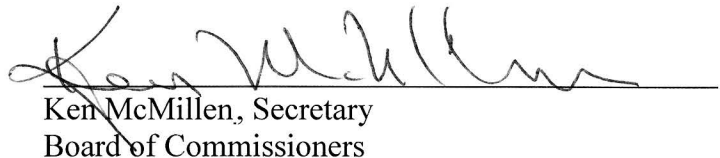
ATTEST:



Secretary, Board of Commissioners

CERTIFICATION

I, Ken McMillen, Secretary of the Board of Commissioners of PUD No. 1 of Jefferson County, do hereby certify that the document attached hereto is a true and correct copy of Resolution No. 2012-014 of the said Board, duly adopted at a regular meeting thereof held on the 18th day of September, 2012.



Ken McMillen, Secretary
Board of Commissioners

AGREEMENT FOR SALE AND PURCHASE OF KALA POINT WATER SYSTEM

This Agreement is executed this _____ day of September, 2012, by and between KALA POINT UTILITY COMPANY, a Washington corporation ("Seller"), and PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, a municipal corporation of the State of Washington (Purchaser"), for the sale and purchase of all assets comprising the water distribution system at Kala Point in Jefferson County, Washington.

RECITALS

A. Seller is a Washington business corporation which owns all of the real and personal property described in **Exhibit "A"** attached hereto ("the Assets"), which comprise the water distribution system ("the System") now serving a residential community in Jefferson County, Washington, known as "Kala Point", and certain additional areas located adjacent to that community. All of the area served by the System is described in **Exhibit "B"** attached hereto, and is hereafter referred to in this Agreement as "the Service Area." Seller wishes to sell the Assets.

B. Purchaser is a municipal corporation of the State of Washington, formed as a Public Utility District under the authority of R.C.W. Title 54, with corporate boundaries including all of Jefferson County. Pursuant to R.C.W. Chapter 54.16, Purchaser has the authority to acquire, operate, develop and maintain water distribution systems to provide domestic water service to customers in Jefferson County. Purchaser wishes to purchase the Assets.

C. The parties now wish to memorialize an agreement regarding the terms upon which the Seller will sell and the Purchaser will purchase all of Seller's real and personal property Assets which are used in the Kala Point water distribution System.

AGREEMENT

The parties therefore agree as follows:

1. Purchase and Sale. Subject to the terms and conditions of this Agreement, Seller hereby agrees to sell, transfer, convey and deliver to Purchaser, and Purchaser does hereby agree to purchase from Seller, effective upon the Closing date, all of the real and personal property Assets owned by Seller which are related, in any way, to the water distribution System at Kala Point in Jefferson County, Washington, including, without limitation, all Assets described in **Exhibit "A"** attached hereto. The parties agree that the sale includes all Assets used in, appurtenant to and necessary for the operation of the System, whether or not they have

been specifically listed in **Exhibit "A"**, except for those items designated at the end of **Exhibit "A"** as "Excluded Items."

2. Purchase Price. In consideration for the assignment, transfer, sale and delivery of the Assets to Purchaser, Purchaser agrees to pay a total price of One Million Two Hundred **Sixty-eight Thousand and no/100ths Dollars (\$1,268,000.00)**, payable as follows:

a. Loan Assumption. The sum of Ninety Thousand and no/100ths Dollars (\$90,000.00) payable by the Purchaser either assuming or, if necessary, paying off the existing loan balance now owing in approximately that amount on a Drinking Water State Revolving Fund ("DWSRF") loan from the State of Washington to Seller, under SRF loan number 98-78898-021. If, by the time of Closing, the balance owing on that loan, including accrued interest, exceeds \$90,000, Seller will pay to the State of Washington the excess above \$90,000.00 at Closing, so that Purchaser will only be required to assume or pay off principal and accrued interest of \$90,000.00. If the principal and accrued interest are less than \$90,000.00 at Closing, Purchaser shall pay to Seller the difference at Closing.

b. Down Payment at Closing. Purchaser shall pay the sum of Five Hundred Seventy-eight Thousand and no/100ths Dollars (\$578,000.00) in cash at Closing.

c. Installment Payments. Purchaser shall pay the sum of Six Hundred Thousand and no/100ths Dollars (\$600,000.00) in twelve annual installments of \$50,000 each, the first such installment to be paid on the first anniversary of the Closing, as evidenced by a Note to be delivered at Closing in the form attached hereto as **Exhibit "C"**. No interest shall accrue on the unpaid balance. The Note may be wholly or partially prepaid at any time.

The Purchase Price set forth above shall be allocated for tax purposes among the assets as set forth in **Exhibit "D"**.

3. Contingencies. Purchaser's obligations under this Agreement are contingent upon satisfaction of the following contingencies:

a. Purchaser must receive approval and the proceeds of a loan from the Washington State Public Works Trust Fund ("PWTF"), in an amount of not less than \$ _____, to be used to finance a portion of the Purchase Price.

b. The real property and the interests in real property being transferred hereby, including the well site, pumping facilities and all easements, shall be free and clear of any liens, mortgages, deeds of trust or other encumbrances of any kind, except (1) the DWSRF loan referred to hereinabove, which shall be assumed by Purchaser, and (2) those approved by Purchaser. Upon execution of this Agreement, Seller shall order and pay the premium for a

standard owners policy of title insurance for all real property included in the sale, as itemized in **Exhibit "A"**. The preliminary report and final title policy must show title to be insurable consistent with the foregoing standards and acceptable to Purchaser, in Purchaser's sole discretion.

c. The personal property being transferred hereby shall be free and clear of any security interests, liens, leases or other encumbrances, as confirmed by a UCC title search which shall be satisfactory to Purchaser in Purchaser's sole discretion. The cost of the title search shall be paid by Seller.

d. The financial books and records of the Kala Point water system, including billing systems, accounts receivable, schedules of rates and charges, shall be examined by Purchaser and must be found to be acceptable in Purchaser's sole discretion.

e. All components and appurtenances of the Kala Point water system shall be inspected by Purchaser and found to be in satisfactory condition and in full compliance with State and County regulations governing the operation of the System, in the sole discretion of Purchaser.

f. The foregoing contingencies must be either waived or satisfied to Purchaser's satisfaction by notice in writing given to Seller on or before September 25, 2012. If no such notice is given by that date, this transaction shall automatically terminate and this Agreement shall be null and void. Notwithstanding the foregoing, if all contingencies other than the PWTF loan contingency have been satisfied, the contingency period shall be extended for an additional two months during which the loan contingency must be either waived or satisfied.

4. Accounts Receivable. At the time of closing or within one week thereafter, Seller will bill all customers on the System for water consumed up to the Closing date. The proceeds from such billings will belong to Seller and Seller shall be responsible for collecting those proceeds. All billings for water consumed after the Closing date will be deemed earned by the Purchaser and Purchaser shall be responsible for billing and collecting those proceeds. If any of the accounts receivable retained by Seller are still unpaid 90 days after Closing, Seller shall have the option, to be exercised by written notice delivered to Purchaser between 90 and 100 days after closing (and not later), but not the obligation, to assign some or all of those accounts to Purchaser, in which case Purchaser shall be obliged to buy them, at a discount of 50% from their face value. Purchaser shall not be obliged to purchase any other accounts receivable from Seller.

5. No Assumption of Liabilities. The parties agree that Purchaser is purchasing only the Assets of the System, and that Purchaser is not purchasing or assuming any of Seller's liabilities or accounts payable, except for the DWSRF loan as specified in Section 2 above.

6. Employee Benefits. Seller will be responsible for and hold Purchaser harmless for any claims in respect of payment to employees of all salary, wages, commissions, overtime, or bonuses, plus any applicable payroll taxes and any and all other employee benefits accruing to Seller's employees under applicable wage and hour laws and employee benefit plans of Seller including, but not limited to, workers' compensation, medical, retirement, and profit sharing, all to the day of the Closing. Seller will pay employees for their services up to the day of the Closing, including, but not limited to, wages, commissions and bonuses. Purchaser does not agree to retain any of Seller's employees for future employment.

7. Seller's Representations and Warranties. As additional consideration for the transactions contemplated herein, Seller makes the following representations, warranties, and covenants, each of which is deemed by the parties to be material and shall survive the Closing.

a. Corporate Standing, Powers, Authorizations and Non-Violations. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Washington and is qualified to do business in the State of Washington, has full corporate power to own its properties and to carry on the operations as now being conducted, and has full corporate power to execute, deliver, and perform this Agreement, and has obtained all corporate authorizations and any other approvals or consents necessary for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder without violation of any agreement or order to which the Seller or its property is subject, including, without limitation, the approval of its board of directors and its stockholders.

b. Marketable Title/Condition. Seller has good and marketable title to all of the Assets to be purchased by Purchaser hereunder, free and clear of any mortgage, pledge, lien, conditional sales agreement, lease, judgment, assessment or other claim, charge, or encumbrance of any kind or character, except for liens for current property taxes not delinquent, the materiality of which does not impair marketability. The real property (i) has all necessary access to public roads, electricity, water and other utilities used and necessary in the operations of the System, (ii) is not subject to any special assessment, condemnation or eminent domain proceeding, (iii) is not subject to any agreement that would preclude the transfer to the Purchaser or the continued operations by the Purchaser thereon, (iv) all improvements constructed thereon are within the boundaries thereof, do not encroach on any other parcel of adjacent real estate and, where appropriate, are set back from the boundaries to comply with all applicable codes and regulations covering the operations, and (v) no structure primarily located on another parcel of real property encroaches thereon.

c. Tangible Personal Property. All tangible property being transferred to Purchaser hereunder is in good operating condition and is suitable for its current use and, where appropriate, such property is in compliance with the rules and regulations of the applicable authorities for the storage and transmission of water for domestic use. All the Assets being transferred complies with all relevant governmental codes and good operating practices and safety standards in the water distribution business and the State of Washington.

d. Legal or Administrative Liability. There is no suit, action, arbitration, or

legal, administrative, or other proceeding, or governmental investigation pending or to the knowledge of Seller threatened against Seller or affecting Seller, the System or any of the Assets. , Should any litigation or claims arise relating to occurrences prior to Closing, they will be defended by Seller, or its insurance companies, and liability in respect of which is expressly not assumed by Purchaser and against which Seller hereby agrees to indemnify and hold Purchaser harmless. Seller has not received any notice that it is under investigation with respect to any alleged violation of any provision of federal, state, local law or administrative regulations with respect to the Assets or the System. Seller is not in default with respect to any order, writ, injunction, or decree of any federal, state, or local court, department, agent, or instrumentality.

e. No Violation of Governmental Regulations. To Seller's knowledge, the operations and the Assets have not been, and were not prior to the day of the Closing, conducted in any material violation of any statute, law, ordinance, or regulation of any governmental entity, and all components of the System serving Customers that are regulated by state or federal authorities are in material compliance with all applicable governmental regulations and all required inspections have been made and reported in a timely manner. The real property is zoned and permitted for its current use and the Seller is in compliance with all zoning laws and any applicable permit. The current uses of the real estate upon which the System components are located are not nonconforming or special uses or special exceptions, which uses could be terminated upon the transfer or sale of the Assets to the Purchaser; the current uses and improvements in the System are not "grandfathered" under any previous zoning laws or ordinances; and Seller has no knowledge of any contemplated changes under current zoning classification which would adversely affect the System.

f. Governmental Consent: No consent, approval, order or authorization of, or registration, declaration or filing with, any governmental entity is required by or with respect to the Purchaser in connection with the execution and delivery of this Agreement or the consummation by the Purchaser of the transactions contemplated hereby.

g. No Violation of Environmental Laws. The Seller is not and has not in the past been, in violation of, or charged with, convicted of or investigated for any violation of any federal, state or local environmental law or regulation by any court, governmental body or agency with respect to the real property or the operation of the System, nor to Seller's knowledge (i) does any environmental condition exist on any portion of the real property that would likely give rise to a claim that Seller is in violation of any such federal, state or local law, rule or regulation or (ii) have there been any disposals, releases of hazardous substances, materials or wastes, or pollutants or contaminants, from, in or under any of the real property. For purposes of this Agreement, the terms "release" and "hazardous substances" shall have the definitions assigned thereto by the Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. § 9601, et seq., as amended ("CERCLA"). To Seller's knowledge, there (i) are presently no tanks for storage of petroleum products or other material located on the Real Property; (ii) have been no, nor are there now, any electrical transformers or other equipment containing PCBs located on or under the real property; (iii) have been no, nor are there now, any drums, cans, canisters, or containers containing any chemicals buried underground located on the real property; (iv) have been no, nor are there now, any wastes buried underground on the real property; (v) has been no, nor is there now, any asbestos of any

type or character located on the real property; (vi) is no contamination of soil, ground water or surface water on or under the real property; (vii) is no portion of the real property that is or has been on any list prepared by any federal, state or local governmental body or agency as requiring remedial environmental action; (viii) are no environmental studies or reports referring or relating to the real property; and (ix) has been no release of any hazardous substance, material or waste, pollutants or contaminants on, in, from or under any property adjacent to the real property.

h. Insurance and Workers' Compensation. Seller has had continuously in force policies of liability insurance for at least three years prior to the Closing, in the amount of at least \$1,000,000, and workers' compensation insurance coverage in compliance with the minimum standards of the State of Washington. True and complete copies of such policies and/or certificates of coverage and a listing of all claims Seller has made over the past three (3) years and all workers' compensation claims made or being paid during the past three (3) years have been supplied to Purchaser. All of such liability policies provide insurance on an "occurrence" basis with respect to all risks normally insured against by companies similarly situated. There are presently no existing conditions, claims or injuries to any current employee that will rise to any claims under the workers' compensation laws.

i. Ordinary Course of Business. The System has been operated and the Assets have been maintained by Seller in accordance with standards of operation and maintenance generally recommended in the water distribution business. There are no contracts with vendors or suppliers which cannot be terminated within 30 days.

j. Taxes and Employee Pension and Profit Sharing Plans. The Owner's operation of the System has been conducted in conformity with all applicable tax laws and all necessary returns and filings have been or will be made and the related taxes paid, such that there is and will not be any liability to the Purchaser for any taxes, penalties or interest for any operations that occurred prior to the Closing. Seller's operation of the System has been in full compliance with all state and federal wage and hour laws and regulations. All employee retirement and benefit plans as defined in the Employee Retirement Income Security Act ("ERISA"), if any, have been operated in accordance with their plan documents and are in compliance with ERISA, the Internal Revenue Code, and any applicable state or federal law, rule or regulation as of the Closing.

k. Disclosure. Neither this Agreement nor any Exhibit hereto nor any other document, certificate or instrument delivered to Purchaser by or on behalf of Seller in connection with the transactions contemplated by this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact known to Seller that is not set forth in the Schedules of this Agreement which materially and adversely affects, nor so far as Seller can now foresee, will materially and adversely affect, the Assets.

l. Written Material. All written materials heretofore supplied to Purchaser, including, without limitation, all financial statements and revenue and expense computations are correct, complete and accurate in all material respects and to Seller's knowledge none of such financial computations omits any item of cost which should have been included under proper accounting practice.

8. Representations and Warranties of Purchaser. As additional consideration for the transactions contemplated herein, Purchaser makes the following representations, warranties and covenants, each of which is deemed by the parties to be material and shall survive the Closing:

a. Organized and Good Standing. Purchaser is a municipal corporation duly organized and validly existing in good standing under RCW Title 53 of the laws of Washington and qualified to own and operate utility services in the State of Washington, has full power to purchase and own the Assets and to carry on the operation of the System as now being conducted, and has full power to execute, deliver, and perform this Agreement.

b. Authorizations. Purchaser has obtained all necessary authorizations and approvals for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder.

c. No Violation. The execution and performance of this Agreement shall not place Purchaser in violation of any other agreement or covenant.

9. Closing; Closing Date. The closing ("Closing") of the transactions provided for in this Agreement shall take place on or before October 1, 2012, after satisfaction or waiver of all contingencies. If the the contingency for the availability of the Public Works Trust Fund Loan has not been satisfied by December 1, 2012, then either party may terminate this Agreement by notice in writing, provided the terminating party has not breached this Agreement and is not responsible for the delay in closing.

10. Closing Agent and Closing Costs. This transaction shall be closed in the offices of First American Title Insurance Company in Port Townsend, which shall act as the Closing Agent. Seller shall pay the cost of the title insurance premium and the real estate excise taxes (if any). Purchaser and Seller shall split the escrow fees charged by the Closing Agent. If there is any use tax assessed on the transaction, it shall be paid by Seller.

11. INSTRUMENTS OF CONVEYANCE: CLOSING DOCUMENTS.

11.1. Seller's Documents. Seller shall deliver to Purchaser at the time of Closing on the day of the Closing the following documents:

(a) A Bill of Sale to Purchaser for the personal property and goodwill described in this Agreement in a form reasonably satisfactory to Purchaser.

(b) Deeds, excise tax affidavits and other documents necessary to transfer the real property listed among the Assets.

(c) Vehicle title certificates or other evidence of ownership of any motor vehicle equipment included in the Assets, duly assigned to Purchaser, together with such additional transfer documents as the laws of Washington may require.

(d) Assignment of any easements, contracts or other documents necessary for the operation of the System, in a form reasonably satisfactory to Purchaser, assigning to Purchaser the benefits of the easements, contracts and other documents not otherwise conveyed by the Bill of Sale or the Deeds. To the extent that the consent of other parties is necessary for the assignment of such rights and documents, written consents shall also be furnished

(e) Certified copies of corporate resolutions of Directors and Stockholders authorizing the entry into this Agreement by Seller and the consummation of the transactions contemplated hereby.

(f) A certificate of good standing for the Seller from the Washington Secretary of State.

(g) Copies of termination statements or payoff letters acceptable to the Purchaser, discharging the security interests reflected in all UCC-1 filings.

(h) Such other documents as are reasonably requested by Purchaser and/or the Closing Agent.

11.2. Purchaser's Documents. At the time of Closing on the day of the Closing, Purchaser shall deliver to Seller the following:

(a) A copy of the Resolution of the Purchaser's Board of Commissioners, authorizing the execution and performance of this Agreement and designating the person with authority to sign all documents on behalf of Purchaser.

(b) The check for the portion of the purchase price which is due at Closing.

(c) The Note.

(d) Such other documents as are reasonably requested by Seller and/or the Closing Agent.

12. Operations Prior to Closing. Seller hereby covenants that, between the date of this Agreement and the Closing Date, Seller will continue to operate the System and conduct its business in the ordinary course, in substantially the same manner as previously conducted and in accordance with all State and County regulations and in accordance with sound business practices; will maintain all of the Assets in good operating condition and repair; will maintain all permits and contractual obligations in good standing; will maintain normal levels of consumables, spare parts and supplies; and will preserve the good will of the business and be responsive to the needs of the customers of the System.

13. Access to Information Prior to Closing. Upon signature of this Agreement, Seller

shall make available to Purchaser and/or Purchaser's financial advisors and legal counsel, immediately upon Purchaser's request, all of Seller's business records, financial statements, books of account, tax returns, customer lists, accounts receivable, equipment lists, owners manuals, maintenance records, and all other records reasonably requested by Purchaser which are necessary for Purchaser to evaluate Seller's business and to satisfy the contingencies which are conditions precedent to Purchaser's obligations under this Agreement. Seller will also furnish copies of all deeds, bills of sale, title reports, easements and other documents relating to Seller's original acquisition of all of the Assets and the acquisition of the stock of the Seller corporation by its current shareholders.

14. Indemnification. The parties hereto agree as follows regarding indemnification of each other concerning claims, actions, or proceedings arising from this Agreement.

a. Indemnification of Purchaser. Seller shall jointly and severally indemnify and hold Purchaser harmless from and against any loss, cost, expense, or other damage (including, without limitation, reasonable attorneys' fees and expenses) (collectively, "Damage") resulting from, arising out of, or incurred with respect to, or (in the case of claims asserted against Purchaser by a third party) alleged to result from, arise out of, or have been incurred with respect to:

- (i) the falsity or the breach of any representation or warranty made by Seller herein or in any Schedule hereto;
- (ii) the breach of any covenant or agreement made by Seller;
- (iii) any debt, obligation, contract, or liability of Seller asserted against and/or satisfied by Purchaser which is not expressly assumed by Purchaser;
- (iv) the Seller's conduct of its business, the real property, and the operations prior to the time of Closing, other than any obligations specifically assumed by Purchaser; and
- (v) any claim or litigation existing before Closing or arising from events which occurred before Closing, whether or not known by Seller prior to Closing.

b. Indemnification of Seller. Purchaser shall indemnify and hold Seller harmless from and against any Damage resulting from, arising out of, or incurred with respect to, or (in the case of claims asserted against Seller by a third party) alleged to result from, arise out of, or have been incurred with respect to:

- (i) the falsity or the breach of any representation or warranty made by Purchaser herein;
- (ii) the breach of any covenant or agreement made by Purchaser herein;

- (iii) any debt, obligation, contract, or liability of Seller asserted against and/or satisfied by Seller which is expressly assumed by Purchaser hereunder; and
- (iv) the conduct of business by Purchaser using the Assets at any time after the Closing.

c. Notice of Claims. The party seeking indemnification (the "Indemnified Party") agrees to give the party from whom indemnification is sought (the "Indemnifying Party") timely notice of any claim with respect to which the Indemnifying Party has agreed to indemnify the Indemnified Party under this Section 14. Upon request, the Indemnified Party shall give the Indemnifying Party access to such information possessed by the Indemnified Party as the Indemnifying Party reasonably requests relating to such claim. The Indemnified Party may initially undertake the defense of any third party claim until the Indemnifying Party has acknowledged in writing that the Indemnifying Party is indemnifying the Indemnified Party with respect to any third party claim, whether or not involving litigation, at which point the Indemnifying Party will be entitled to assume the defense of any such claim; provided that the Indemnified Party may, at its election, participate (at its own expense) in such defense. At the Indemnifying Party's reasonable request, the Indemnified Party will cooperate with the Indemnifying Party in the preparation of any such defense if the Indemnifying Party reimburses the Indemnified Party for any expenses incurred in connection with such request. The Indemnifying Party will not settle any such claim for consideration other than money without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld.

d. Payment. At any time that a claim is made under this Section 14 the party seeking indemnification shall be entitled to immediate payment in cash upon final resolution of the primary claim.

15. Right to Offset. In the event that any of the representations or warranties made by Seller are breached, and Purchaser is damaged or incurs costs arising from such a breach, Purchaser shall be authorized to withhold payment of the installment payments on the purchase price owing to Seller, until Purchaser has withheld sums which fully reimburse Purchaser for all such damages, including the attorneys fees and other costs of defending or pursuing any claims arising from such breach.

16. Change of Name. If, after the Closing of this transaction, Seller decides to keep the Seller corporation in existence, rather than dissolving the corporation, Seller agrees to change the name of the corporation to a new name which does not include the words "Kala Point."

17. Delivery of Assets: Risk of Loss and Business Transfer. Delivery of possession of the Assets purchased hereunder, and the Closing shall be deemed to have occurred upon delivery of the payment of the down payment on the day of the Closing and all risks of loss, whether or not covered by insurance, shall be on Seller until such time and upon Purchaser from and after such time. The delivery or possession of the Assets to be purchased hereunder shall be so arranged between Seller and Purchaser as to permit Purchaser to take over the operation of the

System without interruption.

18. Pre-Paid Water Services. Seller has accepted pre-payments for future water services from some customers. Seller will deliver a check to Purchaser at Closing for all of those prepayments, together with a schedule listing the names of the customers, the addresses of the customers' property and the extent to which each such customer has paid for water services beyond the Closing date. Purchaser will grant those customers a credit against future water bills in the amount of the prepayment.

19. No Finders or Brokers. Purchaser and Seller both represent that they have not dealt with any agent, finder, or broker, either in the nature of a finder's fee or otherwise, in connection with the subject matter of this Agreement, and that no commission, finder's fee or other such payment will be due upon consummation of this transaction. Purchaser and Seller each agrees to indemnify and hold the other harmless against any liability, damages, costs or expense incurred by reason of its breach of the foregoing representation.

20. Severability. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided, however, that if any such provision may be made unenforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by applicable law.

21. Counterpart Copies. This Agreement will be executed in one or more counterpart copies, each of which shall be considered an original copy for all purposes.

22. Notices. Any notice or other communication required or permitted hereunder shall be in writing, and shall be deemed to have been given if (i) placed in the United States mail, certified, postage prepaid, (ii) delivered to a recognized overnight courier service for next business day delivery, or (iii) if personally delivered addressed as follows:

Seller: Eric and Kimberly Thomas
PO Box 3246
Sequim, WA 98382

with a copy to:

Richard A. Finnigan
2112 Black Lake Blvd. SW
Olympia, WA 98512

Purchaser: PUD No. 1 of Jefferson County
230 Chimacum Road
Port Hadlock, WA 98339

with a copy to:

Malcolm S. Harris, Esq.
Harris Mericle & Wakayama
Suite 4100, 901 Fifth Ave.
Seattle, WA 98164

Each of the foregoing shall be entitled to specify a different address by giving notice as aforesaid to the other.

22. Entire Agreement, Modification, Waiver. Headings. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations, and discussions, whether oral or written, of the parties. There are no warranties, representations, or other agreements between the parties in connection with the subject matter hereof, except as specifically set forth herein. No supplement, modification, waiver, or termination of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided. Paragraph headings are not to be considered part of this Agreement and are included solely for convenience and are not intended to be a full or accurate description of contents thereof. The parties hereto may amend or modify this Agreement in such manner as may be agreed upon by a written instrument executed by such parties. The Exhibits referred to in this Agreement shall constitute a part of this Agreement and are incorporated as though set forth in verbatim text by this reference thereto.

23. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of Purchaser and Seller, and their respective successors, assigns, personal representatives, and heirs.

24. Mutual Drafting. This Agreement is the joint product of Seller and Purchaser and their legal counsel, and each provision hereof has been subject to the mutual consultation, negotiation and agreement of such parties and shall not be construed for or against either party.

25. Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington.

26. Attorney Fees. If an action is brought to enforce this Agreement or any provision hereunder, the substantially prevailing party shall be entitled to its attorney fees and costs, including any fees and costs on appeal, if any.

IN WITNESS WHEREOF, the parties have signed this Agreement on the date and year first written above.

SELLER:

KALA POINT UTILITY COMPANY

By: _____
Eric Thomas, President

PURCHASER:

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY

By: _____
James Parker, Manager

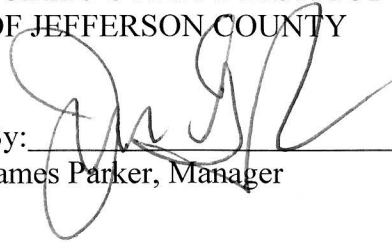
A handwritten signature in black ink, appearing to read 'JP', is written over the signature line for James Parker.

Exhibit "A"

**LIST OF ASSETS SOLD BY KALA POINT UTILITY COMPANY TO
PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY**

PERSONAL PROPERTY ASSETS

4 well houses and all appurtenances
4 wells
4 source meters
4 water right permits as follows: G2-23892, G2-24203, G2-24848, G2-24998
All underground piping from wells to treatment facility
Treatment facility and all appurtenances
3 booster pumps
1 backup 15 hp booster pump
1 1000 gallon hydro pneumatic tank
3 concrete reservoirs
1 altitude valve
All piping from treatment facility to individual lots
All individual service meters
Goodwill

EXCLUDED PERSONAL PROPERTY

Assets owned and used by shareholders of Company for service across water systems including but not limited to the Kala Point System, which includes office, vehicles, billing system, etc.

REAL PROPERTY ASSETS

Parcel "A" (Water Tank Site)

TRACT "C" OF KALA POINT DIVISION NO. 5, AS RECORDED IN VOLUME 6 OF PLATS, PAGE 45, RECORDS OF JEFFERSON COUNTY, WASHINGTON; and

THE "WATER TANK SITE" AS SHOWN ON THE PLAT OF KALA POINT DIVISION NO. 3 AS RECORDED IN VOLUME 6 OF PLATS, PAGE 25, RECORDS OF JEFFERSON COUNTY, WASHINGTON;

EXCEPT THAT PORTION OF SAID TRACT "C" LYING

WESTERLY OF THE FOLLOWING DESCRIBED LINE;

BEGINNING AT A POINT ON THE NORTH LINE OF SAID TRACT "C" WHICH BEARS S 88° 19' 05" E, A DISTANCE OF 248.51 FEET FROM THE NORTHWEST CORNER THEREOF;

THENCE S 1° 54' 07" W, A DISTANCE OF 175.00 FEET TO THE SOUTH LINE OF SAID TRACT "C" AND THE TERMINUS OF SAID DESCRIBED LINE.

SAID PARCEL CONTAINING 31,714 SQUARE FEET.

SITUATE IN THE COUNTY OF JEFFERSON, STATE WASHINGTON.

(Jefferson County Tax Parcel No. 965 000 064)

Parcel "B" (describe)

LOT 438 OF KALA POINT DIVISION NO. 3, RECORDS OF JEFFERSON COUNTY, WASHINGTON

(Jefferson County Tax Parcel No. 965 000 048)

All Easement rights associated with the foregoing properties and all of the easement rights benefitting utility providers arising under the "Restated and Revised Master Declaration of Covenants, Conditions, and Restrictions of Record of Kala Point Owners' Association Divisions 1 Through 15, which govern the Kala Point Plats.

All water rights arising from and appurtenant to the foregoing properties and the Kala Point Plats, including, without limitation, those water rights documented under Department of Ecology Permits numbered as follows:

Permit G 2-24203, dated June 3, 1976

Permit G 2-24998, dated August 16, 1978

Permit G 2-23892, dated July 11, 1975

Permit G 2-24848, dated April 11, 1978

Exhibit "B"

Map of Service Area for Kala Point Water Distribution System

Exhibit "C"

Form of Promissory Note to be Executed at Closing

\$600,000.00

Port Townsend, Washington
October 1, 2012

PROMISSORY NOTE

FOR VALUE RECEIVED, PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, a municipal corporation of the State of Washington (hereinafter "Maker") promises to pay to KALA POINT UTILITY COMPANY, a Washington corporation (hereinafter "Holder"), or order, at Sequim, Washington, or at such other place as may be designated by the Holder from time to time, the principal sum of Six Hundred Thousand and no/100ths Dollars (\$600,000.00), without interest, on the terms contained herein.

1. Annual Payments. Maker shall make twelve annual payments of principal to Holder, on the 1st day of October of each year, commencing October 1, 2013, each such payment to be in the amount of Fifty Thousand and no/100ths Dollars (\$50,000.00).

2. Final Due Date. The full remaining principal balance shall be due and owing on or before October 1, 2024.

3. Default Interest. After maturity, or in the event of default in payment by Maker, the unpaid principal balance owing on the Note shall accrue interest at the rate of six percent (6%) per annum until paid or the default is cured.

4. Prepayment. Maker may prepay all or part of the balance owing under this Note at any time without penalty

5. Late Charge. If Holder receives any installment payment more than ten days after its due date, then a late payment charge equal to 5% of the installment shall be added to the scheduled payment.

6. Acceleration. If Maker fails to make any payment owed under this Note when due, and such default is not cured within thirty (30) days after written notice of such default, then Holder may, at its option, declare all outstanding sums owed on this Note to be immediately due and payable.

7. Attorneys Fees and Costs. If Maker or Holder sues to enforce this Note or obtain a declaration of its rights hereunder, the prevailing party in any such proceeding shall be entitled

to recover its reasonable attorneys' fees and costs incurred in the proceeding (including those incurred in any bankruptcy proceeding or appeal) from the non-prevailing party.

8. Waiver of Presentment. Maker waives presentment for payment, notice of dishonor, protest and notice of protest.

9. Severability. If any clause or any other portion of this Note shall be determined to be void or unenforceable for any reason, such determination shall not affect the validity or enforceability of any other clause or portion of this Note, all of which shall remain in full force and effect.

MAKER:

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY

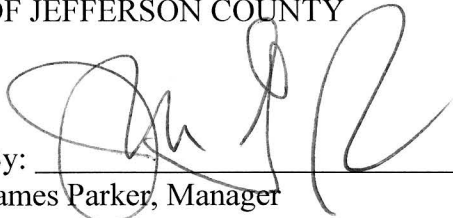
By: 
James Parker, Manager

Exhibit "D"

Allocation of Purchase Price

The Purchase Price of One Million Two Hundred Sixty-eight Thousand and no/100ths Dollars (\$1,268,000.00) shall be allocated among the Assets as follows:

Personal Property (excluding Good Will) \$_____

Good Will \$_____

Real Property

 Parcel "A" \$_____

 Parcel "B" \$_____

 Parcel "C" \$_____